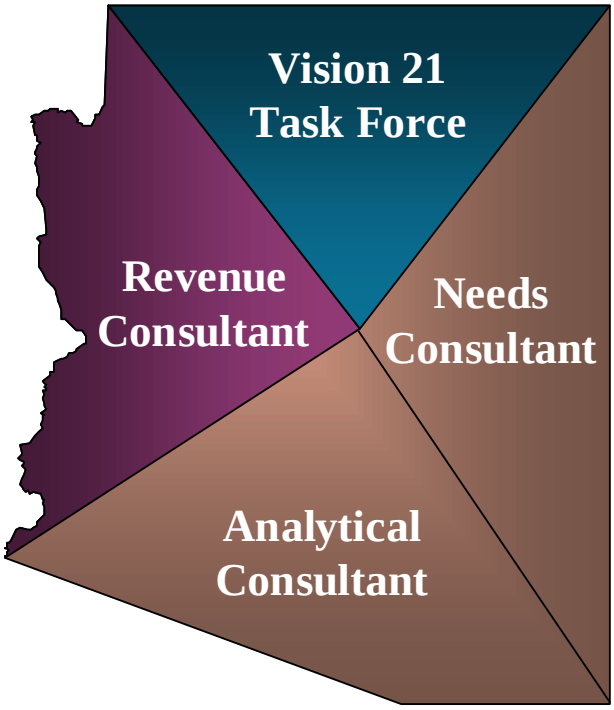
Governor's Transportation Vision 21 Task Force

Revenue Consultant Progress Report

Highlights of Future Revenues and Revenue Yield of Selected Alternative Revenue Sources



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I. FUTURE FORECASTS BY MODE

A. Highway

- Forecasts are pre-alternative fuel vehicle tax credit impacts
- Forecasts have been "deflated" to account for the reduced effectiveness of future revenues due to inflation (forecasts of Phoenix Local Price Index used for estimates of future inflation – average during 20-year period is 3.5%). Therefore, revenue forecasts are in constant 2000 dollars
- **Federal Revenues**: Since ISTEA (1992), average annual increase in Federal funds has been 3.8%. These forecasts reflect conservative 3% annual increase before eroding impacts of inflation
- **Regional Revenues**: primary source is Maricopa RARF which is assumed to end in FY 2006; Pinal and Gila estimates not readily available and amounts are not expected to be significant so not included
- **State Revenues**:
  - HURF
    - forecasts are currently being updated by ADOT so these estimates need to be treated as provisional
    - average annual increase of approximately 4%
  - Other
    - LTAF I: some must be used for transit, some can be used for non-transportation; since amount is small ($23.0 million annually) keep it in highway classification
    - Non-HURF VLT: includes the VLT to Counties that must be used for transportation as well as the VLT to the State Highway Fund (excludes LTAF II which is for transit)
- **Local Revenues**: survey is underway, provisional estimate based on previous survey; this is amount that cities/towns/counties spend from own general funds (excludes HURF revenues as well as other Federal and State revenues distributed to cities/towns/counties)
- Greatest degree of uncertainty is with Local Revenues, but since this represents only 6% of total, risk is small

Future Highway Revenue Estimates (millions of constant 2000 dollars)					
Source	**FY 2001-2005**	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Federal	$1,923.7	$1,919.4	$1,848.2	$1,791.8	$7,483.0
Regional	$1,294.6	$166.7	$0.0	$0.0	$1,461.3
State					
HURF	$5,135.3	$5,525.2	$5,674.0	$5,832.0	$22,166.4
Other	$439.2	$559.5	$650.5	$770.2	$2,419.5
Subtotal	$5,574.5	$6,084.7	$6,324.5	$6,602.2	$24,585.9
Local	$556.0	$528.4	$484.6	$447.4	$2,016.3
Total Highway	$9,348.8	$8,699.1	$8,657.2	$8,841.3	$35,546.5

Future Highway Revenue Estimates (percent of total)					
	FY 2001-2005	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Total Revenue ($m)	$9,348.8	$8,699.1	$8,657.2	$8,841.3	$35,546.5
Federal	21%	22%	21%	20%	21%
Regional	14%	2%	0%	0%	4%
State					
HURF	55%	64%	66%	66%	62%
Other	5%	6%	8%	9%	7%
Subtotal	60%	70%	73%	75%	69%
Local	6%	6%	6%	5%	6%
Total Highway	100%	100%	100%	100%	100%

B. Transit

- These estimates reflect revenues available for capital; if needs reflect operating costs as well, then estimates of fares and local revenue support for operations will be provided
- **Federal Revenues**: for both capital and operating. although minimum of 93% is for capital projects; includes funds to both urban and rural systems, although majority is to urban systems; assumes continued Federal support for capital projects
- **State Revenues**: includes LTAF-II (both the VLT and lottery portion); VLT potion is effective only through September 30, 2003; lottery funds have been relatively small and inconsistent; conservative assumption of no State revenue after FY 2003 is used
- **Local Revenues:** Phoenix and Tempe have passed sales taxes with revenues for transit; likely that Tempe's is mostly for operating costs so don't include these; assume 50% of initial years of Phoenix revenues could be for capital, amounts available in subsequent five year periods 10% less (i.e., 40% in FY 2006-2010, 30% in FY 2011-2015 and 20% in FY 2016-2020); Tucson spent $2.5m in FY 1998 on capital – assume same annually
- High degree of uncertainty in transit revenues. Federal revenue estimates assume continued support for LRT (average of $5m per year), but could be even more than that. How much of local money may be used for capital versus operating difficult to forecast. Need to review carefully when comparing transit needs versus revenues

Future Transit Revenue Estimates for Capital Projects (millions of constant 2000 dollars)					
Source	**FY 2001-2005**	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Federal	$230.1	$229.6	$221.1	$214.3	$895.1
Regional	$0.0	$0.0	$0.0	$0.0	$0.0
State	$50.5	$0.0	$0.0	$0.0	$50.5
Local	$271.4	$217.3	$158.0	$103.7	$750.4
Total Transit	$552.0	$446.9	$379.1	$318.0	$1,696.0
excludes local general funds and farebox revenues for operations					

Future Transit Revenue Estimates (percent of total)					
	FY 2001-2005	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Total Revenue ($m)	$552.0	$446.9	$379.1	$318.0	$1,696.0
Federal	42%	51%	58%	67%	53%
Regional	0%	0%	0%	0%	0%
State	9%	0%	0%	0%	3%
Local	49%	49%	42%	33%	44%
Total Transit	100%	100%	100%	100%	100%

C. Aviation

- **Federal Revenues:** Aviation Investment and Reform Act for the 21st Century (AIR 21) provided more money for its three-year period (FY 2001 thru 2003); future authorizations are uncertain; used average for last nine years; this results in a conservative forecast
- **State Revenues:** less State funds available then in past due to reduction in Flight Property Tax rate
- **Local Sources:** local general fund revenues are used to fund 4.47% of Federally-funded projects (Feds contribute 4.47% and the State the remaining 4.47%); local general fund revenues are also used to finance non-Federally funded projects (State 90% and Local 10%); amount varies and is small so is not included in the calculations

Future Aviation Revenue Estimates for Capital Projects (millions of constant 2000 dollars)					
Source	**FY 2001-2005**	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Federal	$296.0	$209.6	$174.1	$145.6	$825.3
State	$58.8	$50.2	$42.9	$36.9	$188.8
Total Aviation	$354.8	$259.8	$217.0	$182.5	$1,014.2

Future Aviation Revenue Estimates (percent of total)					
	FY 2001-2005	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Total Revenue ($m)	$354.8	$259.8	$217.0	$182.5	$1,014.2
Federal	83%	81%	80%	80%	81%
State	17%	19%	20%	20%	19%
Total Aviation	100%	100%	100%	100%	100%

D. Total Base Case Revenues

Future Revenue Estimates (millions of constant 2000 dollars)					
Source	**FY 2001-2005**	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Highway	$9,348.8	$8,699.1	$8,657.2	$8,841.3	$35,546.5
Transit	$552.0	$446.9	$379.1	$318.0	$1,696.0
Aviation	$354.8	$259.8	$217.0	$182.5	$1,014.2
Total	$10,255.6	$9,405.9	$9,253.3	$9,341.8	$38,256.6

Future Revenue Estimates (percent of total)					
	FY 2001-2005	**FY 2006-2010**	**FY 2011-2015**	**FY 2016-2020**	**Total**
Total Revenue ($m)	$10,255.6	$9,405.9	$9,253.3	$9,341.8	$38,256.6
Highway	91%	92%	94%	95%	93%
Transit	5%	5%	4%	3%	4%
Aviation	3%	3%	2%	2%	3%
Total	100%	100%	100%	100%	100%

II. POTENTIAL ALTERNATIVE REVENUE SOURCES

A. Full List for Screening

- From original long list of 1994-95 study
- Feasibility related to overall feasibility considering effectiveness (elasticity, sensitivity, administration, risk of evasion), structure (revenue potential), impact (economic/environmental consequences), equity (burden/use, burden/income, tax burden) and feasibility (legal/constitutional, public acceptance)

POTENTIAL ALTERNATIVE REVENUE SOURCES					
CATEGORY	**REVENUE SOURCE**	**OVERALL RANKING FROM 1994/95 REPORT**	**FEASIBILITY SCORE FROM 1994/95 REPORT**	**USED AS POTENTIAL PACKAGE COMPONENT IN 1994/95**	**INCLUDED IN THIS CURRENT UPDATE**
Existing HURF Source	**Motor Vehicle Fuel Tax Increase**	**1**	**+**	**yes**	**yes**
	Use Fuel Tax Increase	**9**	**+**	**yes**	**yes**
	VLT Increase	15	+	no	no
	Registration Fee Increase	**5**	**+**	**yes**	**yes**
	Motor Carrier Tax Increase (now motor carrier fee)	13	+	yes	no
User-Type Alternatives	**Dedicated VLT**	**3**	**•/–**	**yes**	**yes**
	VMT Tax	**7**	**–**	**no**	**yes**
	Tolls/Congestion Pricing	**8**	**–**	**no**	**yes**
	Parking Tax/Fee	**20**	**–**	**no**	**yes**
	BTU/Energy Tax	**10**	**–**	**no**	**yes**
	Alternative Fuels Tax	**24**	**–**	**no**	**yes**
	Development Fees	**21**	**–**	**no**	**yes**
Sales Taxes	**Motor Fuels**	**2**	**•**	**yes**	**yes**
	Motor Vehicles	**3**	**•**	**yes**	**yes**
	Products and Services	17	–	no	no
	General Statewide Surcharge	**5**	**•**	**yes**	**yes**
	County Surcharge	11	•	no	no since duplicate of statewide
Income, Property and Utility Tax	**Personal Income Tax Surcharge**	**14**	**–**	**no**	**yes**
	Corporate Income Tax Surcharge	19	–	no	no
	Property Tax	**12**	**–**	**no**	**yes**
	Utility Fees	16	–	no	no
Financing Methods	Value Capture	23	–	no	no
	Public/Private Joint Ventures	NA	–	no	no
	Expanded HURF Bonding Cap	**not included in 1994/95 study**			**yes**
Misc. Taxes	Admissions Tax	22	–	no	no
	Accommodations Tax	18	–	no	no

Note: sources highlighted in ▒ will be considered in this study

\+ positive NA ranking not applicable

• neutral same ranking number means sources received same overall score

– negative

B. Potential Sources for Transportation Vision 21 Analysis

- Revenue sources that will be examined include:
  - fuel tax increases
  - registration fee increases
  - dedicated VLT
  - VMT tax
  - tolls/congestion pricing
  - parking tax/fee
  - BTU/energy tax
  - alternative fuels tax
  - development fees
  - sales tax on motor fuels
  - dedication of sales tax on motor vehicles
  - general statewide sales tax
  - personal income tax surcharge
  - property tax
  - expanded HURF bonding cap
- Revenue sources included in initial hypothetical packages
  - drop those with negative overall feasibility score (revenue-producing potential)
  - concentrate on those that scored high on structure (revenue potential)
  - when two criteria above are applied, the following revenue sources should be considered as part of the hypothetical packages:
    - motor vehicle fuel tax increase
    - sales tax – motor fuels
    - dedicated sales tax on motor vehicles
    - statewide sales tax
    - development fees

C. Revenue Yield of Major Potential Alternative Sources

- Motor Vehicle Fuel Tax Increase
  - pros: inelastic with small increases; administrative measures already in place; significant revenue yield; use related; legislative mechanism in place
  - cons: not sensitive to inflation; all income levels pay same tax rate
  - 1¢ of gas tax increase yields $436 million (in constant 2000 $) for 20-year period FY 2001-2020, or $21.8 million per year on average
- Sales Tax on Motor Fuels
  - pros: sensitive to fluctuations in fuel prices (since used relatively low price in forecasts, should not be negatively impacted), administrative measures already in place, substantial revenue yields, use related; legislative mechanism in place
  - cons: all income levels pay same tax rate
  - 5% sales tax on gas tax yields $2.0 billion for 20-year period FY 2001-2020, or $99 million per year

- Dedicated Sales Tax on Motor Vehicles
  - pros: not a new tax, just a reallocation; sensitive to inflation; administrative structure in place
  - cons: not related to use; reduction in general fund revenues
  - the 5% sales tax on motor vehicles is estimated to currently account for approximately $322 million per year, or 9% of sales tax revenue. In the 20-year period of FY 2001-2020 total tax yield from sales tax on motor vehicles is estimated to be $8.5 billion (constant 2000 dollars). For every 1/100 of the current 5/100 rate, the 20-year yield is $1.7 billion. Average annual yield of the 5 percent tax is $424 million over the 20-year period.
- Statewide Sales Tax
  - pros: substantial revenue yield; administrative procedures already in place; regressive tax
  - cons: not related to use
  - the 5% sales tax is estimated to currently account for approximately $3.6 billion per year. An additional 0.25% (increase from 5% to 5.25%) is estimated to yield $4.8 billion (constant 2000 dollars) for the 20-year forecast period, or $238 million per year on average. A 0.50% increase would yield $9.5 billion for the 20-year period and $476 million on average each year.
- Development Fees
  - mechanism by which developers contribute to transportation improvements
  - different from impact fee wherein developer is assessed pro-rata share of costs
  - can be imposed on residential and commercial housing permits
  - revenue potential: in 1998 there were 120,897 housing permits issued statewide - $1,000 per new permit yields $120 million; value of building permits in 1998 was $11.2 billion – 1% fee would yield $112 million

Revenue Potential of Alternative Revenue Sources			
		million of constant 2000 dollars	
Source	**Unit**	**Average One-Year Yield**	**20-year Yield**
gas tax increase	$0.01	$21.8	$436.3
	$0.05	$109.1	$2,181.3
sales tax on gasoline	5% tax	$98.9	$1,978.4
sales tax on automobiles	5% tax	$424.4	$8,487.8
dedicated to transportation	1% of 5%	$84.9	$1,697.6
statewide sales tax surcharge	0.25%	$238.0	$4,760.0
	0.50%	$476.0	$9,520.0

C. Potential Impact on Average Household

- Description of Average Household
  - Total Average Household Income: $40,000
  - Percent of Income Assumed Spent on Taxable Items: 25%
  - No. of Cars: 2
  - Average Annual Miles Driven: 12,000
  - Average MPG (city) 19
- Impact today of potential tax/fee changes

Impact of Alternative Revenue Sources			
		Impact in 2000	
Source	**Unit**	**Per Automobile**	**Per Household**
gas tax increase	$0.01	$6	$13
	$0.05	$32	$63
sales tax on gasoline	5% tax	$29	$57
sales tax on automobiles		none	none
dedicated to transportation			
statewide sales tax surcharge	0.25%		$25
	0.50%		$50
development fees	absorbed in purchase/rental costs		